

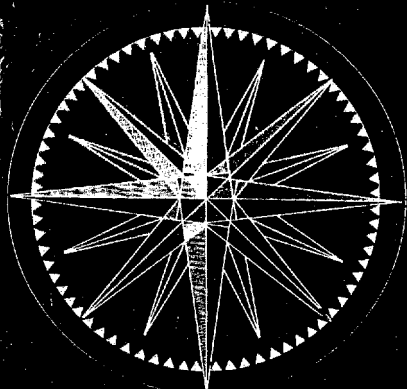
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SPECIAL REPORT

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THE IMPACT OF FRENCH ECONOMIC POLICY ON US INTERESTS

CENTRAL INTELLIGENCE AGENCY

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THE IMPACT OF FRENCH ECONOMIC POLICY ON US INTERESTS

French economic relations with the Common Market and the US are based on intricately interwoven policies that are designed to achieve De Gaulle's over-all objectives of promoting French national interests and his own pretensions to Continental leadership and of gaining greater West European independence from the US. While he has often expressed disdain for things purely economic, De Gaulle is clearly not above using the economic weapons at his disposal to attain these broader political ends.

Many French decisions on economic policy, however, are motivated strictly by national economic interests. This study attempts to assess the degree to which French economic policy in three specific areas differs from US interests, and the degree to which it may be motivated by political rather than economic considerations. The three areas discussed concern the French attitude relative to (1) the thrust and tempo of the EEC's internal development, (2) the scope and timing of negotiations with the US under the US Trade Expansion Act, and (3) the approach to and solution of the American balance-of-payments difficulties.

Internal EEC Development

Since rejecting Britain's bid for membership in the Common Market, Paris has faced threats by other EEC members

of a slowdown in internal EEC development. The French in turn have warned that unless the grouping's internal progress continues as scheduled in the basic Treaty of Rome and other EEC agreements, the whole future of the Common Market will be brought into question. Paris has also threatened to veto EEC participation in the "Kennedy round" of tariff-cutting negotiations under the Trade Expansion Act.

Defining what it means by internal progress, the French Government has indicated that the next step toward a full customs union of the Common Market countries must take place as scheduled on 1 July 1963. In addition, agreement must be reached on unsettled portions of the EEC's common agricultural policy. Finally, the other EEC members must stop blocking final ratification of the agreement continuing the association of former African colonies with the EEC.

De Gaulle is aware that France's EEC partners all believe the Common Market has given them a degree of prosperity and political influence which they would not otherwise have, and that their enthusiasm for the EEC generally runs high. He also recognizes that they are unsure of his attitude toward the EEC. They remember the reports of his lack of enthusiasm for the Common Market when it began functioning

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in 1958, as well as his continued scornful references to its institutions and bureaucrats.

France's position on EEC progress therefore derives partly from tactical political motives. De Gaulle probably anticipates that the other members will not push to a crisis any issue which might give him cause for new opposition to the supranational bodies established with such toil just over five years ago.

An equally important reason why France is championing the internal development of the Common Market, however, is economic self-interest. France under De Gaulle's leadership has consistently pressed harder and more successfully for the internal progress of the EEC than has any other member country, and from 1958 at least until recent weeks, French economic objectives in this field were clearly in tune with US policy. The US has favored development of a close economic union in Europe as a step toward political unification, and has opposed the concept of a looser free trade area without political content.

Leaving aside the question of political motivation, France has been America's best ally in fostering this close economic union among the Six. France has always insisted that the Common Market must be more than a customs union limited to industrial goods; that free movement of

agricultural produce among member nations must be included in the EEC's objectives; and that there must be a gradual coordination of internal economic policies as well as trade policies among the member states.

When the EEC treaty was negotiated in the mid-1950s, the French often expressed the fear that their industry was generally weaker and less efficient than that of most other EEC countries, particularly West Germany. They believed that their industry stood to suffer in conditions of free competition among the member states. French agricultural output, however, was larger and more efficient than farm production elsewhere in the EEC. The French argued that agriculture must be part of the Common Market to compensate for whatever losses they might suffer in industry.

Under heavy French pressure, the EEC finally agreed in January 1962 on the general shape of and necessary mechanisms for a common agricultural policy. While the effects of this policy, if it were to become increasingly protective, could be injurious to US interests, it remains, nevertheless, the most important measure to date in the development of a true economic union in Western Europe.

French insistence on the coordination of economic policies in fields other than trade has

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also been favored by the US in the interest of closer economic integration. France has been motivated by the belief that its industries could become competitive with those of other EEC members only if the statutes, taxes, and subsidies affecting various sectors of the economy were made uniform throughout the Common Market. The French have always felt that the Common Market made no sense unless production conditions in different areas of the market were equalized, in part because they believe their social security and labor costs are higher than those in other member nations.

To a greater extent than its partners, France has sent top-flight officials and administrators to man (and dominate) the EEC headquarters in Brussels. Close observers have labeled the staff of the EEC's executive commission as French in organization, outlook, and management technique. This staff is recognized as one of the most efficient governmental bureaucracies in existence, and its vitality has been a major factor in the success to date of the Common Market.

Last fall, the EEC Commission and its staff drew up an "Action Program" of over 100 pages describing in detail measures necessary for continued rapid development of the EEC through 1965. The concepts of economic planning which are evident throughout this pro-

gram have been called "dirigistic" by some, but French by all observers.

In sum, French policy has been consistent with that of the US in fostering close economic integration within the Common Market. French motives for pursuing this policy have sometimes differed from US motives, but are as much economic as political. In any case, French motives are far broader than purely and simply to force the other EEC countries to support France against the "Anglo-Saxons."

Trade Negotiations

As a member of the Common Market, France negotiates through the EEC and not directly with the US on trade and tariff problems. The EEC, however, can carry on such negotiations under the terms of its founding treaty only with the unanimous consent of the members. (Beginning in January 1966, issues of this type may be decided by a qualified majority vote.) As already shown, the French Government is trying to use its position on negotiations with the US under the Trade Expansion Act to force further internal progress in the EEC.

France may even try to use the US desire for successful trade negotiations as a lever to extract concessions from Washington in other fields. Foreign Minister Couve de Murville recently told President

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Hallstein of the EEC Commission that he recognized negotiations under the US Act had to take place, but that "it would not be possible to settle only the one sector of the Atlantic relationship." This may merely mean that France will attempt to broaden the tariff reduction talks to include discussions of measures to bring US economic policies in fields other than trade into line with those of the EEC. It may also mean, however, that France will attempt to link forthcoming trade negotiations to such political and military questions as atomic armament in the Atlantic alliance.

As in the case of internal EEC developments, however, France's position on the pending trade and tariff talks is far more than an anti-US political maneuver. The French position is based at least equally on economic motives--motives which at present are encouraging policies unfavorable to US interests but which have often produced policies desired by the US.

French industry has historically enjoyed a higher level of protection than has industry in most other Common Market countries, and France has been a reluctant partner in most of the earlier tariff-cutting negotiations during the past 15 years under the General Agreement on Tariffs and Trade. In the last round of such negotiations (in 1960-61), France for economic rea-

sons took a position almost identical to its present one, demanding further internal progress in the EEC before external tariffs were cut. France argued that EEC industries could survive the increased competition they would face from "big" US industries only if the EEC developed its own large internal market more rapidly than originally scheduled. This, it was claimed, would allow the more rapid emergence of big, efficient industries in Europe itself.

The 1960-61 external tariff cuts of the EEC were much smaller than those now proposed. France withdrew its opposition to these earlier cuts, however, only when an agreement was reached within the Common Market to speed up both the lowering of the EEC's internal tariffs and the adjustment of national tariffs toward the common external tariff. This was another move toward making the Common Market a reality which was instigated by France and supported by the US.

France's demands today for further internal progress in the EEC are, if anything, milder than its demands at the time of the 1960-61 tariff cuts. Paris then wanted an acceleration of the schedule for creation of the Common Market, but now is asking only for implementation of measures on which the Six have already reached agreement. This time, however, France clearly faces stronger opposition from within

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the EEC and has less support from the US.

In agricultural trade, the economic interests of France openly clash with those of the US. France desires from the Common Market growing outlets for its increasingly efficient farm production, while the US is striving to maintain its present position as a major supplier of agricultural goods to the EEC. Major disruptions are not expected in the markets for over half of the \$1.2-billion annual farm exports from the US to the EEC, because the products involved are not grown in volume in the EEC area. But \$500 million of the total, including exports of wheat and flour, feed grains, and poultry products, will face increasing competition from EEC domestic producers whether or not the EEC's common agricultural policy provides higher levels of protection for internal production.

The French argument on agriculture is that the EEC's farm policy is and should be moderately protective, and that the US gives its farmers at least equal protection. Europe, the argument runs, should be under no obligation to provide an expanding market for US farm surpluses, which allegedly result from US support programs and other forms of protection.

The revolution in mechanization and modern farming methods which hit the US a generation ago, producing a

tremendous expansion of yields as well as lower costs, has just appeared in Western Europe in the past decade. French discussions of agricultural trade policies often imply that the European lag in this area is an historical accident which has given the US an unfair share of European markets, and that a change must be expected. France has reacted against the recent US drive to assure continued American access to EEC farm markets by initiating a snide propaganda campaign in Europe against US farming and farm trade policies.

However, Paris has also come up with positive proposals to help bridge the French-American differences on agriculture. Since the EEC's trade in those farm products which are causing difficulty is regulated by support prices and adjustable import levies rather than fixed tariffs, the tariff-cutting provisions of the US Trade Expansion Act are inapplicable. The French have played a leading role in urging that world commodity agreements be formulated for these products, which are important to the national incomes not only of France and the US, but also of Canada, Australia, New Zealand, Argentina, and other countries.

The main features of such agreements would be arrangements to stabilize prices at levels high enough to assure fair incomes to producers, and to hold production down to levels where supply and demand are in balance. Agreements of

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this type have also been suggested for some of the basic raw materials and tropical products on which many of the less developed countries depend for their export earnings.

World commodity agreements may become a major feature of the negotiations associated with the US Trade Expansion Act. The French have based proposals for such schemes on their experience with their former African colonies. France has long guaranteed relatively high prices for the output of primary products from these territories, placing at the same time fairly strict controls on the level of production. While recognizing the difficulty of negotiating and enforcing commodity agreements, the US has publicly accepted them in principle, as have Britain, most other West European nations, and many of the less developed countries.

France has also played an important part in efforts to eliminate so-called nontariff barriers to trade in fields other than agriculture. With general US agreement, France has urged that the negotiations on the US trade act should reach agreement on uniform anti-dumping laws, customs valuation regulations, and other procedures which can vitiate the significance of tariff cuts. France has criticized certain US practices in these areas, and is clearly in a mood to bargain hard on nontariff trade barriers, but the motivating force seems to be French economic self-

interest rather than political obstructionism.

Financial Relations

Recent French-US discussion of possible financial aid for the US balance of payments is another subject on which questions have been raised as to whether France might be following a deliberately hostile course because of political differences with the US.

Faced with a persistent balance-of-payments deficit in recent years, the US has tried various measures, including a drive to expand exports, efforts to get certain European countries to increase their procurement of military hardware in the US, and requests that others prepay part of their debts to the US incurred in the early postwar period.

In addition, the US Treasury has promoted two types of agreements with European countries intended to provide further stability for the dollar and to limit at least temporarily the flow of gold from the US. One is the so-called "swap" arrangement whereby the central banks of the major trading powers agree to provide, almost on a moment's notice, certain funds to any one of their number which requests assistance to stem a run on its currency. The second type of agreement is an arrangement under which various European countries make medium-term (15-24 months) loans to the US, which then

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uses the funds to reduce its balance-of-payments deficit. For the duration of the loan, at least, this eliminates the possibility that the creditor nation will ask for gold to cover that portion of the US deficit paid off by the loan. Loans of this type totaling about \$500 million have been made to the US by Italy, Switzerland, and West Germany.

France's record of cooperation in assisting the US in its balance-of-payments difficulties during recent years is as good as that of any other European nation, and better than most. The French Government has made prepayments on its long-term debts to the US of over \$400 million, and the French central bank has cooperated fully in the "swap" arrangements outlined above.

In February 1963 a French financial official approached a US Treasury representative in Paris and indicated that France would like to do something to show that monetary cooperation between the two countries was continuing despite the differences in other fields. In the discussions which followed, French representatives at the working level responded favorably to the suggestion that France make a medium-term loan to the US of \$100-150 million similar to the previous Italian, Swiss, and German loans. US Under Secretary of the Treasury Roosa was in Paris for other purposes

at the end of February, and a meeting was arranged between him and French Finance Minister Giscard d'Estaing. At the meeting, the French minister appeared favorably disposed toward the loan but said he wanted to study the proposal further.

The first stories which appeared in the Paris press on this question also indicated that the French minister's reaction was favorable. In the next several days, however, other stories suggested that the French Government was disturbed because information on the discussions had been leaked to the press. These later stories intimated that the US side had publicized the discussions in order to influence the French decision and make it more difficult for Paris to refuse to grant the loan.

Several recent French press articles have also linked the US "request" for a loan to the problem of US investments in France, which have lately come under increasing criticism. (One of the elements in the US balance-of-payments deficit has been US overseas investments.) The press articles expressed doubt that Paris should help Washington defend the dollar when this would facilitate further American investments overseas. It was suggested that negotiations on the two subjects might be conducted simultaneously.

There the situation stands. The extent to which these press

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reports reflect French Government thinking is unknown. On the official level, the position of the French Government is that the loan is still under consideration. In addition, France did agree in early March 1963 to a doubling of the "swap" arrangement between the Bank of France and the American Federal Reserve from \$50 to \$100 million. Although less significant than the loan would be, this is still an effort by the French Government in the direction of continued monetary cooperation with the US. The loan itself may also be approved

after the unfavorable publicity it has received in Paris dies down.

It may be, however, that working-level officials of the French Finance Ministry originally went a little too far in their enthusiasm for continued financial cooperation with the US, and are in the process of being politely overruled by the political level of the government. It is even possible that the purpose of the French initiative was to ascertain whether the US could be drawn into negotiations on the problem of American investments in Europe. (CONFIDENTIAL NO FOREIGN DISSEM)

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